Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Zettel | Analyst: Christy Keith | Bill Number: AB 2561

Related Bills: See Prior Analysis | Telephone: 845-6080 | Amended Date: 5/22/2000

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Armed Forces Retirement Pay Credit

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO _________________________.

_____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED __ STILL APPLIES.

X OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a credit of $214 to any California resident who receives retired pay as a result of active service as a member of the armed forces of the United States.

SUMMARY OF AMENDMENT

The May 22, 2000, amendments removed the provisions of the bill that would have provided an exclusion for armed forces retired pay and replaced them with the provisions discussed in this analysis.

EFFECTIVE DATE

As a tax levy, this bill would become effective immediately upon enactment and specifies that its provisions would apply to taxable years beginning on or after January 1, 2001, and before January 1, 2009.

SPECIFIC FINDINGS

Under federal and state laws, compensation received by a member of the Armed Forces is subject to income tax unless specifically excluded. Qualified military benefits are excludable from income. Qualified benefits include benefits paid by the Veterans Administration, such as disability compensation, pensions, educational assistance, etc. In addition, medical benefits, military disability benefits, various travel allowances and other benefits provided by the military may be excludable. Dislocation allowances, temporary lodging allowances and move-in housing allowances provided for a permanent change of station also are excludable from gross income. Compensation received for any month while serving in a combat zone is excludable.

Board Position:			Department Director	Date
_____ S	_____ NA	_____ NP	Gerald H. Goldberg	6/20/00
_____ SA	_____ O	_____ NAR		
_____ N	_____ OUA	X PENDING		

Under current federal and state laws, a member of the armed forces of any country and the uniformed services of the United States may exclude from gross income amounts received as a pension, annuity or similar allowance for personal injury or sickness resulting from active service.

Under federal and state laws, gross income of a nonresident from sources within this state does not include any retired or retainer pay of a member or former member of a uniformed service, as computed under Title 10 of the United States Code and received on or after January 1, 1996.

Existing federal and state laws provide various tax credits that are designed to provide tax relief for taxpayers who must incur certain expenses (e.g., renter's credit) or to influence behavior, including business practices and decisions (e.g., research credits).

This bill would allow a credit of $214 to any California resident who receives retired pay as a result of active service as a member of the armed forces of the United States.

This bill would define "qualified taxpayer" and "retired pay" for purposes of the credit. Any credit could be carried over until exhausted.

Implementation Considerations

This bill uses the term "permanent resident" in its definition of "qualified taxpayer." The term generally used in state tax law is "resident." It is unclear how the addition of the word "permanent" is intended to modify "resident," as generally used in state tax law.

This bill would provide an unlimited carryover period for excess credit amounts. Credits with unlimited carryover periods must be maintained on tax forms and systems even when the credit has expired. Since tax credits usually are used within eight years, most recently enacted credits contain limited carryover period provisions, generally eight or ten years after the credit expires.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on data and assumptions discussed below, the following revenue losses are projected to result from this bill:

Estimated Revenue Impact of **AB 2561** As Amended May 22, 2000 Effective After 1/1/01 (In $Millions)				
Fiscal Years	2000/01	2001/02	2002/03	2003/04
Revenue Impact (Rounded)	**($5)**	**($36)**	**($37)**	**($38)**

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Revenue Discussion

Revenue losses would depend on the number of qualified military retirees claiming this credit in any given year.

According to available data from the U.S. Department of Defense, the number of qualified military retirees in California was over 178,000 in September 1999. This number was increased 3% annually for the year 2000 projection and for years thereafter. Multiplying the number of projected qualified retirees in year 2001 (over 189,000) by $214 exceeds $40 million.

This amount was reduced 20% to allow for:

- current law exclusions for certain veterans' compensation; and
- recipients not incurring state income taxes or having less than $214 in tax liability.

State income revenue loss is projected to be on the order of $32 million for the 2001 taxable year.

BOARD POSITION

Pending.